

Targeted Relief from Court-Ordered Reassessment

The Senate Democrats first proposed a bold plan in 1998 to reduce the reliance on property taxes. Despite the enactment of significant tax restructuring, the Senate Democratic Caucus continues to work for practical, comprehensive tax reform.

Property taxes are considered by most Hoosiers to be the most onerous tax. Even with the changes resulting from restructuring and the court-ordered reassessment, Indiana's tax system remains regressive and outdated in many ways. Given the effects of reassessment, we suggest again reforms that will target relief to four groups of Hoosiers who are particularly harmed by Indiana's court-ordered reassessment and property tax system.

As we did in 1998, we hope to jumpstart the policy discussion for the next step in lasting, meaningful property tax reform.

Group Number One: Senior citizens

DEFERRED PAYMENT PROGRAMS

What Can Be Done: Because senior citizens often live on fixed incomes, and for most, their largest asset is their home, property taxes can be particularly burdensome for this group. But twenty-four states and the District of Columbia allow some form of deferred payment program. There are many examples of programs that permit seniors to defer taxes and remain in their homes.

- **Illinois:** Allows homeowners aged 65 and over with incomes up to \$30,000 to defer all property taxes due.
- **Tennessee:** Allows local units to decide whether to offer deferrals and gives flexibility on limits and qualifications.
- **Wisconsin:** Offers low-interest loans of up to \$2,500 to those 65 and over to pay taxes, with the loan being paid after the sale of the property.

Group Number Two: Working families

CIRCUIT BREAKER PROGRAMS

What Can Be Done: Recognizing that there is no link between property taxes and the ability to pay, more than thirty states and the District of Columbia use targeted programs sometimes called “circuit breakers” to ease the burden on lower income working families. These measures are designed to deliver relief when certain thresholds or characteristics are met, such as income level, property taxes as a percentage of income, significant increases over last year’s bill, etc.

- **Vermont:** Rebates of up to \$1,500 are given on any property taxes over a certain percentage of income. A sliding scale further restricts the percentage that must be paid as income decreases.
- **Michigan:** Refunds are available to families making up to \$82,650. The maximum refund is \$1,200.
- **Wisconsin:** Also allows refunds of up to \$1,160, but the income cap for eligibility is \$24,500.
- **Maryland:** Uses an asset, not income, test to determine eligibility and exempts up to \$150,000 in assessed value.

Renters may face indirect tax increases as landlords are forced to pass along property tax increases. Almost all of the states using circuit breakers extend some benefits to renters as well.

Group Number Three: Historic & revitalized neighborhoods

NEIGHBORHOOD REVITALIZATION CREDITS

The *Town of St. John* case allows for General Assembly to enact certain credits and deductions when there is a policy interest to do so. An excellent case can be made that there is state interest in encouraging investment in older neighborhoods to stimulate inner cities and to reduce urban sprawl.

Group Number Four: Indiana's family farmers

FARMSTEAD CREDIT

What Can Be Done: Farmers have long been the most vocal opponents of the property tax, and it is easy to see why. Extensive property ownership does not necessarily translate into bottom-line earnings for the agricultural community. For example:

- **Iowa:** The Family Farm Tax Credit is for tracts of at least 10 acres that are farmed by the owner or the owner's immediate family members. The value of the credit is dependent upon the level of state funding.
- An alternative without direct state cost might provide a basic allowance similar to the \$35,000 Homestead Standard Deduction for homeowners. A certain number of acres could be exempted from taxation. Just as we would like to use tax policy to preserve our urban neighborhoods, saving the state's endangered family farms should also be a priority.

Constitutional Amendment

A Joint Resolution broadening the General Assembly's tax policy-making ability will be on the ballot in 2004. If that ballot measure is approved by the electorate, it will allow greater discretion by the legislature to tax or credit / exempt certain classes of property from taxation. These classes include personal property and residential homes.

However, the General Assembly should not use this ballot decision as an excuse to wait further. These options, and those suggested by others, should be explored immediately.

The Senate Democrats began talking about serious property tax reform in 1998, four years before the General Assembly passed HEA 1001-ss (2002). We are here today because we feel the momentum needs to be sustained.